

**REPORT OF THE AUDIT OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
May 26, 2006 Through May 23, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
May 26, 2006 Through May 23, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Johnson County Sheriff for the period May 26, 2006 through May 23, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$6,268,331 for the districts for 2006 taxes, retaining commissions of \$253,945 to operate the Sheriff's office. The Sheriff distributed taxes of \$6,010,668 to the districts for 2006 taxes. Taxes of \$806 are due to the taxing districts from the Sheriff and refunds of \$162 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Report And Pay Taxes In A Timely Manner

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable R. T. Daniel, Johnson County Judge/Executive
Honorable Bill Witten, Johnson County Sheriff
Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the Johnson County Sheriff's Settlement - 2006 Taxes for the period May 26, 2006 through May 23, 2007. This tax settlement is the responsibility of the Johnson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Johnson County Sheriff's taxes charged, credited, and paid for the period May 26, 2006 through May 23, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable R. T. Daniel, Johnson County Judge/Executive
Honorable Bill Witten, Johnson County Sheriff
Members of the Johnson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Report And Pay Taxes In A Timely Manner

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

November 20, 2007

JOHNSON COUNTY
BILL WITTEN, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
May 26, 2006 Through May 23, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 575,729	\$ 910,844	\$ 3,016,084	\$ 744,377
Tangible Personal Property	56,930	102,692	376,929	142,051
Fire Protection	2,591			
Franchise Taxes	71,300	121,490	343,579	
Additional Unmined Coal - 2005 Taxes	2,096	2,684	8,700	2,773
Additional Billings	1,388	2,350	7,596	1,599
Unmined Coal - 2005 Taxes	2,256	2,890	9,368	2,986
Oil and Gas Property Taxes	21,919	29,402	90,554	28,340
Penalties	5,734	9,575	28,243	8,235
Adjusted to Sheriff's Receipt	(108)	(19)	6	(35)
Gross Chargeable to Sheriff	<u>739,835</u>	<u>1,181,908</u>	<u>3,881,059</u>	<u>930,326</u>
<u>Credits</u>				
Exonerations	6,543	11,170	30,847	8,462
Discounts	9,509	14,816	51,135	12,658
Delinquents:				
Real Estate	28,709	52,677	136,993	36,940
Tangible Personal Property	732	1,318	4,098	1,825
Unmined Coal - 2005 Taxes	260	334	1,081	345
Exonerations - Unmined Coal	558	714	2,315	738
Uncollected Franchise Taxes	<u>5,424</u>	<u>9,743</u>	<u>34,853</u>	
Total Credits	<u>51,735</u>	<u>90,772</u>	<u>261,322</u>	<u>60,968</u>
Taxes Collected	688,100	1,091,136	3,619,737	869,358
Less: Commissions (a)	<u>29,532</u>	<u>42,389</u>	<u>144,789</u>	<u>37,235</u>
Taxes Due	658,568	1,048,747	3,474,948	832,123
Taxes Paid	657,383	1,047,469	3,474,500	831,316
Refunds (Current and Prior Year)	<u>718</u>	<u>1,091</u>	<u>446</u>	<u>819</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 467</u>	<u>\$ (b) 187</u>	<u>\$ (c) 2</u>	<u>\$ (12)</u>

(a), (b), and (c) See Next Page.

The accompanying notes are an integral part of this financial statement.

JOHNSON COUNTY
 BILL WITTEN, SHERIFF
 SHERIFF'S SETTLEMENT – 2006 TAXES
 For The Period May 26, 2006 Through May 23, 2007
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	2,516,000
4% on	\$	3,619,737
1% on	\$	122,594

(b) Special Taxing Districts:

Library	\$	90
Health		51
Extension		29
Soil		<u>17</u>
Due Districts	\$	<u><u>187</u></u>

(c) School Districts:

Common School	\$	152
City School		<u>(150)</u>
Due District or (Refund Due Sheriff)	\$	<u><u>2</u></u>

The accompanying notes are an integral part of this financial statement.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT

May 23, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT
May 23, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 23, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 29, 2006 through May 23, 2007.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 4, 2006 through October 11, 2006.

Note 4. Interest Income

The Johnson County Sheriff earned \$18,990 as interest income on 2006 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Johnson County Sheriff collected \$41,364 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Johnson County Sheriff collected \$3,205 of advertising costs and \$1,692 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable R. T. Daniel, Johnson County Judge/Executive
Honorable Bill Witten, Johnson County Sheriff
Members of the Johnson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Johnson County Sheriff's Settlement - 2006 Taxes for the period May 26, 2006 through May 23, 2007, and have issued our report thereon dated November 20, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Johnson County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Johnson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Johnson County Sheriff's Settlement - 2006 Taxes for the period May 26, 2006 through May 23, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that are required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Report And Pay Taxes In A Timely Manner

This report is intended solely for the information and use of management, the Johnson County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 20, 2007

COMMENTS AND RECOMMENDATIONS

JOHNSON COUNTY
BILL WITTEN, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of May 23, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Report And Pay Taxes In A Timely Manner

KRS 134.300 requires the Sheriff to make a report and pay taxes due the districts by the 10th day of the month following the month of tax collections. For all months except the final month of tax collections, the Sheriff reported and paid taxes in a timely manner. The final month of tax collections was May 2007. The Sheriff should have prepared monthly tax reports and made payments to districts by June 10, 2007. The Sheriff paid state taxes timely. However, final payment was not made to the remaining taxing districts until July 17, 2007, when the Sheriff completed his final settlement. KRS 134.300(3) requires any Sheriff failing to pay over taxes collected by him and due the county, as provided by law, shall be required by the fiscal court to pay a penalty of one percent (1%) for each thirty (30) day period or fraction thereof plus interest at the legal rate per annum on such taxes. The fiscal court in its settlement with the Sheriff shall charge him with such penalties and interest. Furthermore, KRS 160.510 requires the tax collector, on or before the tenth day of each month, to pay the depository of the district board of education the amount of school tax collected up to and including the last of the preceding month. We recommend the Sheriff report and pay taxes by the 10th day of the following month for any month in which taxes are collected.

Sheriff's Response: No response.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of adequate segregation of duties. A control deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The bookkeeper collects, deposits, and records all receipts and prepares and records all checks. Good internal controls dictate that the same employee should not be handling, recording and reconciling cash receipts. Lastly, authorized check signers should be independent of check preparation, cash receiving, and purchasing.

If the Sheriff can not segregate these duties, compensating controls such as the Sheriff recounting the daily deposits, agreeing deposits to daily tax reports, and agreeing deposits to the receipts ledger should be implemented. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger. The Sheriff could also periodically compare the bank reconciliations to the balance in the checkbook and document this by initialing and dating the bank reconciliation and the balance in the checkbook. We recommend the Sheriff review office procedures to address this control deficiency.

Sheriff's Response: No response.

